

PROCESSING RETIREMENT APPLICATIONS

- it was a long, hot summer -

When PERSI staff talk about the long, hot summer, they aren't simply talking about the weather or the Paul Newman/Joanne Woodward movie. They are speaking about the record number of retirement applications processed in the past 90 days.

The summer months are typically the busiest retirement months for PERSI. This year was no exception. From June through August, PERSI staff processed a record 999 retirement applications, a 10 percent increase over last year. The majority of the applications came from teachers in August because it marks the end of their contract year. PERSI normally processes a little more than 1,900 retirement applications each year.

Many people at PERSI are involved with the retirement process. Currently, when a member decides to retire, they contact one of the seven PERSI field representatives — Susan Strouth, Kari Caven, Lisa Mabe, Melody Hodges, Lynn Duncan, Roger Bartlett, or Lisa Conn — to do an initial retirement benefit calculation. Once this has been completed, the member submits the paperwork for processing. The processing team includes Penny Walls and Julisa Adams, who independently calculate and verify the

accuracy of the initial benefit estimate using updated salary information from the employer; Lenna Strohmeier and Shasta Luper, who set up deductions including taxes, insurance, and direct deposit; and Cathy Andrews, who prepares each retirement package for final processing. On average, to process a retirement application takes two weeks. When applications are received far in advance of a retirement date — sometimes as much as six months before the member actually plans to retire — the application is held for processing until closer to the retirement date.

Benefits manager Susan Shaw notes, "The goal is for retiring members to receive their first check on the day of their retirement...assuming PERSI got everything it needed from the employer. We've been able to accomplish this for 97 percent of our retirees." In the past, retirees received their first check the month after retiring. They were paid retroactively — receiving payment for the first month and the current month in a single check. To better meet members' needs and to reduce the financial impact of retirement, PERSI works to ensure little or no break between the retiree's final paycheck and when they start receiving a retirement benefit.

PERSI MEMBERSHIP AND PERSONAL IRAs

- urgent notice for your board members -

The 1986 Tax Reform Act (TRA) featured a number of tax law modifications including restrictions on the deductibility of Individual Retirement Accounts (IRA). Under this law, taxpayers covered by a tax-qualified pension plan sponsored by their employer could no longer make unrestricted contributions from salary to a personal IRA. Simply put, if you receive taxable compensation you can contribute to a personal IRA; **however**, you may not be able to deduct all contributions if you are

covered by a tax-qualified employer-sponsored retirement plan.

Deductibility of Contributions

Many taxpayers can fully deduct their IRA contributions on their tax returns. For others, contributions may be partially deductible—or not deductible at all—depending on income, marital status, and participation in employer-sponsored retirement plans. (*See the chart on back.*)

Tax Year	Married Filing Jointly		Single / Married Filing Separately	
	Full Deduction	Partial Deduction	Full Deduction	Partial Deduction
2004	Under \$65,000	\$65,000 - \$75,000	Under \$45,000	\$45,000 - \$55,000
2005	Under \$70,000	\$70,000 - \$80,000	Under \$50,000	\$50,000 - \$60,000
2006	Under \$75,000	\$75,000 - \$85,000	Under \$50,000	\$50,000 - \$60,000
2007	Under \$80,000	\$80,000 - \$100,000	Under \$50,000	\$50,000 - \$60,000

Unique Circumstances for State Board Members

For most PERSI members, the benefit of being a member outweighs the IRA tax advantage; for others, it's a little more complicated. Members of State boards are minimally compensated for their services. Because they are paid, generally they are automatically PERSI members...and that complicates matters for some. As members of a qualified retirement plan, the tax-deferred contributions board members make to personal IRAs are subject to exclusions under TRA. This limits the retirement planning options for board members...and for some, it has also meant penalties and interest on IRA deductions previously taken. Many think by simply refusing the stipend, they are waiving PERSI membership and can continue tax-deferred contributions to their personal IRA. But it's not that simple. According to IRS Publication 509, *if you are eligible to participate in an employer-sponsored defined benefit plan, you are a member of that plan even if you decline to participate, don't make any contributions, and do not perform the minimum service required to accrue a benefit.*

Responding to board members' concerns, in 1996 Idaho made it possible to exempt honorariums paid to members of State boards from coverage under PERSI's definition of salary (Idaho Code 59-509). To get the exemption, a board must submit legislation to exempt their compensation and remove the entire board from PERSI.

Before Taking the Exemption

This issue should be carefully considered before making a decision to withdraw from PERSI membership. Questions worth asking include:

- What is your adjusted gross income?
- What other retirement savings options are available? (Exclusions do not apply to employer-sponsored retirement plans such as 401(k), profit sharing, SEP-IRA, or Roth IRA)
- Will the lifetime benefit accrued as a PERSI member offset the tax break you get on a personal IRA now?
- What is the value of having the PERSI disability retirement benefit available to you?

- If you are considering PERSI-covered employment, where you will be earning service credit toward a pension, how much will you benefit from being able to count the months of service earned as a board member?

Because tax law is complicated, board members are urged to consult a tax advisor before making a decision on exempting themselves from PERSI membership in favor of a personal IRA. To avoid unpleasant surprises, **employers are asked to advise board members of the IRA restrictions when they are appointed.**

Notes

PERSI staff collected school supplies and back packs for children living at the Women's and Children's Alliance shelter in Boise to help them get a good start to the school year.



PERSI fiscal staff delivered collected items to WCA. From left: Susie Jewell, Debbie Buck, Jim Monroe, and Pam Fowers.